



**Milliman USA**  
*Consultants and Actuaries*

111 SW Fifth Avenue, Suite 3700  
Portland, OR 97204-3604  
**Tel** +1 503 227.0634  
**Fax** +1 503 227.7956  
[www.milliman.com](http://www.milliman.com)

**via email**

August 14, 2003

Mr. Guy Bell, Director  
Department of Administration  
Division of Retirement and Benefits  
333 Willoughby Ave., 6<sup>th</sup> Floor  
Juneau, AK 99811

**Re: 2002 Actuarial Audit of TRS & PERS  
Areas for Potential Improvement in Actuarial Reporting**

Dear Mr. Bell:

We agreed to offer suggestions for improving the reporting of the actuarial findings as part of the Actuarial Audit of TRS and PERS. We do not believe there is any reason to meet with you or the Board on these final issues, but we are always willing to discuss these issues with you on the phone or come to meet with you if that is your wish.

In general, actuarial standards of practice require an actuarial report to provide information sufficient to meet two goals:

- ◆ The results should be able to be properly interpreted and applied by the person to whom the communication is directed, and
- ◆ Another actuary should be able to provide an opinion about the reasonableness of the conclusions.

**Analysis Study of Actuarial Assumptions**

The format of the experience studies for PERS and TRS are similar and contain much of the same information. We recommend the following:

1. Typically, actuarial methods are reviewed along with the assumptions. If no changes are recommended, a justification for such a recommendation should be included. For example, the actuarial cost method, the amortization strategies, and the asset valuation method were not changed but there was no discussion.
2. The graphical presentation of the demographic assumptions assists in the understanding of the trend by age or service. However, an indication of the magnitude of a specific assumption is left out. For example, a tabulation of the actual number of members to retire at specific ages, compared to the expected number based on the prior and proposed assumptions, would be helpful. One cannot easily tell from the graphs alone if the revised assumption is predicting an overall increase or decrease in the number of members to decrement.



## **System Valuation Reports**

The format of the actuarial reports for PERS and TRS are similar and contain much of the same information. We recommend the following:

1. The asset valuation method is unique and extremely complex. The description in Section 2.3 is not sufficient for a clear understanding. There should be more explanation of the derivation of the PERS amortization amount shown on line (5) of Table 1.1(c). Also, the derivation of the outstanding balance of previous amounts outside the corridor shown on line (5) of Table 1.1(d) should be shown. It would be helpful to have a perspective of the balance outside the corridor, for example, by showing the gain or loss by year and how the amortization payment is expected to eliminate the balance in the future.
2. The Target Unfunded Accrued Liability for PERS is described in Section 2.3. However, it is difficult at best to make the connection between the actuarial projection valuation and the Target Unfunded Accrued Liability. Since this is such an integral part of the Board's funding strategy, it should be fully documented in the report.
3. Actuarial gains and losses are discussed in the report highlight section, but the specific amounts by decrement should be shown in Table 1.4.
4. The PERS actuarial projection valuation is not documented sufficiently. It is difficult to fully understand the purpose and the impact of the projection. Perhaps when the method was adopted it was fully explained, but for those new to the process, a full explanation should be included in each valuation report.
5. The impact of the new administration system (CRS) on the TRS results was very significant. One-time adjustments of this magnitude should include a more in-depth analysis in the final report.

## **PERS Supplement Report**

The format of the PERS Supplement Report is primarily to inform the Board about the results for individual employers. We recommend the following:

1. There should be a transmittal page describing the purpose of the report.
2. It would be helpful to show how the totals in each table tie to the PERS valuation report. For example, the total Target Accrued Liability on page 16 (\$3,959,473,035) plus the Retiree Reserve on page 38 (\$4,189,385,717) add up to the total Target Accrued Liability on page 18 of the Actuarial Valuation.

## **Reporting to Individual PERS Employers**

Mercer prepares the GASB Schedule of Funding Progress and the Division sends out a package to each individual employer. The material is only sufficient to tell employers what their new rate is, but does not comply with the requirements of a valuation report, nor does it contain enough information for employers to prepare a complete GASB disclosure.



Mr. Guy Bell  
August 14, 2003  
Page 3

We suggest two alternatives. One is to provide a more complete report to each employer that looks like a valuation report. Alternatively, simply provide a letter that references certain portions of the System valuation report that can be made available to employers. Typically, we would expect the letter to include the following information:

1. The reports need to clearly define their purpose independently from the System valuation report.
2. A description of the benefits being valued and the actuarial methods and assumptions used should either be included in the individual report or referenced to the description in the System's report.
3. A reconciliation of the assets and the underlying participant data for each employer should be maintained and disclosed.
4. Documentation showing the development of the employer's individual contribution rate.
5. Provide information or instructions for employers to prepare a complete GASB disclosure.

### **Conclusion**

In general, the actuarial communications should include more information and the complex matters should be much more fully explained with a derivation of the numerical results.

Sincerely,

Mark O. Johnson, F.S.A., M.A.A.A.  
Consulting Actuary

ars:l:031405

cc: Anselm Staack  
Kevin Worley  
James Jacobson